

**CHATFIELD SCHOOL
LAPEER, MICHIGAN**

**FINANCIAL REPORT
WITH ADDITIONAL INFORMATION
JUNE 30, 2006**

CHATFIELD SCHOOL

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BROWN & KENT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Chatfield School
Lapeer, Michigan 48446

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School (the "School"), Lapeer, Michigan, as of and for the year ended June 30, 2006, which collectively comprise Chatfield School's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis of our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School as of June 30, 2006 and the respective changes in financial position thereof, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 5, 2006, on our consideration of Chatfield School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered when assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements, but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The accompanying required supplemental information and other supplemental information, as identified in the table of contents, are not a required part of the basic financial statements. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for the purpose of additional analysis. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Brown & Kent, P.C.

Certified Public Accountants

September 5, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

CHATFIELD SCHOOL – LAPEER, MICHIGAN

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Chatfield School’s (the “School”), annual financial report presents our discussion and analysis of the School’s financial performance during the fiscal year that ended on June 30, 2006.

FINANCIAL HIGHLIGHTS

- The School’s financial status remained stable, total net assets increased more than 2 percent over the course of the year.
- Revenues increased 8.1 percent to \$2.4 million while expenses increased less than 8.1 percent to \$2.3 million; 6 percent of the increase is attributable to the Outdoor Classroom Grant.
- Enrollment has remained stable. Ideal enrollment is 291 with equal numbers in each grade level. Actual enrollment has averaged 292 for the past several years. The primary source of funds for the Chatfield School is the State’s Foundation Grant allocated on a per-pupil basis. Chatfield has steadily maintained its maximum enrollment, and each year the number of applicants exceeds the vacancies. Although additional revenues could be received, the Chatfield administrators and the Chatfield Board have not increased enrollment beyond this ideal number because too large a student population could have a negative impact on the school program.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the School.

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the School’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School’s operations *in more detail* than the government-wide statements.
- The *governmental funds* statements tell how *basic* services like regular and special education were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary funds* statements provide information about the financial relationships in which the School acts solely as a *trustee or agent* for the benefit of others.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the School’s budget for the year.

The following summarizes the major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Major Features of Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire School (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the School administers resources on behalf of someone else, such as scholarship programs and student activities monies.
Required financial statements	<ul style="list-style-type: none"> - Statement of net assets - Statement of activities 	<ul style="list-style-type: none"> - Balance sheet - Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> - Statement of fiduciary net assets - Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, School's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statements of net assets includes *all* of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the School's *net assets* and how they have changed. Net assets – the difference between the School's assets and liabilities – are one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School, you need to consider additional nonfinancial factors such as changes in the condition of School buildings and other facilities.

In the government-wide financial statements, the School's activities:

- *Governmental activities* – Most of the School's basic services are included here, such as regular and special education and administration. State formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the School's *funds*, focusing on its most significant or "major" funds – not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The School establishes other funds to control and manage money for particular purposes like building additions.

The School has two kinds of funds:

- *Governmental funds* – Most of the School's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information with the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary funds* – The School is the trustee, or *fiduciary*, for assets that belong to others, such as the student activities funds. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the government-wide financial statements, because the School cannot use these assets to finance its operations.

DISTRICT MANAGEMENT ACTIVITIES

- The School administrators and the Chatfield Board of Directors have consistently monitored expenditures each year to produce a positive cash balance (revenues exceeding expenditures) for each of the past nine years of operation; the goal of careful monitoring was to create an unrestricted cash balance that would be adequate in future years to maintain the building, renovate and refurbish as necessary, and meet contingencies that might develop either within the building or at the state funding level; the funds available for these purposes has increased in each year and now appear adequate; in 2005-06 the first stage of refurbishing began with major carpet replacements, extensive exterior painting, and parking lot maintenance.
- The School administrators and the entire school staff have developed and implemented a purchasing evaluation and inventory analysis system that has reduced expenditures for supplies and materials and improved the storage and retrieval system to eliminate duplication or waste.
- Recognizing that the School's future stability and well-being is entirely dependent upon parents continuing to choose to enroll children at Chatfield, the School administrators, the School staff, and the School's board have collaborated extensively to create an exceptional school for children and to create a staff work environment that retains staff and provides teachers the opportunities to be effective, self-fulfilled professionals. The Chatfield School has been fortunate in hiring and retaining highly qualified teachers and ancillary staff. It is recognized that the percent of the budget allocated for salaries and benefits will have to be increased in the future to have staff compensation for its highly experienced and trained staff reasonably comparable to surrounding traditional public schools.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net assets – The School's *combined* net assets were larger on June 30, 2006, than they were the year before – increasing more than 2 percent to \$4.7 million.

Chatfield School's Net Assets

	2006	2005
Current and Other Assets	\$ 2,070,266	\$ 1,921,115
Capital Assets	2,762,100	2,786,406
Total Assets	4,832,366	4,707,521
Current Liabilities	113,387	110,222
Total Liabilities	113,387	110,222
Net Assets		
Invested in Capital Assets, Net of Related Debt	2,762,100	2,786,406
Restricted	60,831	67,301
Unrestricted	1,896,048	1,743,592
Total Net Assets	\$ 4,718,979	\$ 4,597,299

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (Continued)

Changes in Chatfield School's Net Assets

	<u>2006</u>	<u>2005</u>
Revenues		
Program Revenues		
Charges for Services	\$ 110,264	\$ 96,258
Federal and State Categorical Grants	193,461	81,490
General Revenues		
State Aid – Unrestricted	2,007,844	1,968,795
Other	84,968	43,483
Total Revenues	<u>2,396,537</u>	<u>2,190,026</u>
Expenses		
Instruction	1,285,039	1,256,035
Support Services	778,856	639,788
Community Services	126,140	122,899
Unallocated Depreciation	84,822	78,846
Total Expenses	<u>2,274,857</u>	<u>2,097,568</u>
Increase in Net Assets	<u>\$ 121,680</u>	<u>\$ 92,458</u>

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The strong financial performance of the School as a whole is reflected in its governmental funds as well. As the School completed the year, its governmental funds reported *combined* fund balances of \$1.95 million, above last year's ending fund balances of \$1.81 million.

General Fund Budgetary Highlights

Over the course of the year, the School revised the annual operating budget several times. These budget amendments are:

- Changes made in the second and fourth quarters to account for changes in assumptions since the original budget was adopted.
- While the School's final budget for the general fund anticipated an increase to Fund Balance of \$61,470, the actual results for the year show a \$99,522 increase.
- Actual expenditures in 2005-06 were below original budget estimates because all expenditures were thoroughly reviewed and evaluated. Reductions were achieved primarily across the entire spectrum of expenditures from substitute costs to telephone bills. Most of the reductions were achieved without changing the basics of services to children and without imposing unreasonable expectations on staff. The Partners in Education (parents group) helped by making a substantial donation for technology expenditures that might otherwise have been delayed.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2006, the School had invested \$60,516 in a range of capital assets, including computers, carpeting, and a surveillance system. (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$84,822.

Chatfield School's Capital Assets (Net of Depreciation)

	2006	2005
Land	\$ 50,000	\$ 50,000
Buildings	2,638,223	2,686,150
Equipment and Furniture	73,877	50,256
Total	<u>\$ 2,762,100</u>	<u>\$ 2,786,406</u>

The Chatfield School has designated \$1.2 million for the construction of the Willows Outdoor Classrooms Center adjacent to the building. Construction is expected to begin in 2007.

Long-term Debt

At year-end the School had no outstanding debt obligation.

FACTORS BEARING ON THE SCHOOL'S FUTURE

At the time these financial statements were prepared and audited, the School was aware of the following existing circumstances that could significantly affect its financial health in the future.

- The state has finalized the foundation Grants for 2006-07 school funding; the preliminary budget of the Chatfield School is based upon a basic foundation Grant of \$7,108 plus an "equity grant" of \$23 per child. This will result in an increase of approximately 3.75 percent in state revenues—the largest increase in four years. Salary improvements granted to staff for 2006-07 averaging 3.0 percent and changes in benefit costs will use most of the \$75,000 increase in revenue. Unfortunately, Chatfield is not receiving any Title I funding for 2006-07 because the percentage of students qualifying for free lunch was too small to be eligible for this federal funding. The net result is that Chatfield will be able to maintain all of its current programs for 2006-07, provide for reasonable improvements in salaries and benefits, and still anticipate revenues exceeding expenditures.
- The status of charter schools in Michigan remains tenuous and subject to various funding issues related to traditional public school funding and charter schools; Chatfield School management must monitor these activities (particularly a proposal to fund K-6 programs at less than the funding provided for 7-12 programs) and be prepared to adjust, if necessary.
- Chatfield administrators have aggressively sought partnerships and grants that can enhance the school's program and its standing in the community; recently Chatfield was awarded a Dissemination Grant for \$300,000 over the 2005-07 school years for the purpose of developing the Chatfield Outdoor Classrooms concepts in area schools—including two schools in Lapeer County.

CONTACT THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional information, contact the Administrative Office, Chatfield School, 231 Lake Drive, Lapeer, MI 48446.

BASIC FINANCIAL STATEMENTS

**CHATFIELD SCHOOL
STATEMENT OF NET ASSETS
JUNE 30, 2006**

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	\$ 1,684,033
Accounts Receivable	386,033
Prepaid Expenditures	<u>200</u>
TOTAL CURRENT ASSETS	2,070,266
NON-CURRENT ASSETS	
Capital Assets	3,434,112
Less: Accumulated Depreciation	<u>672,012</u>
TOTAL NON-CURRENT ASSETS	<u>2,762,100</u>
TOTAL ASSETS	<u><u>\$ 4,832,366</u></u>
LIABILITIES AND NET ASSETS	
LIABILITIES	
Accounts Payable	\$ 94,992
Deferred Revenue	<u>18,395</u>
TOTAL LIABILITIES	113,387
NET ASSETS	
Investment Capital Assets	2,762,100
Restricted for:	
Community Garden	20,156
Environmental Science Building	40,675
Unrestricted	<u>1,896,048</u>
TOTAL NET ASSETS	<u>4,718,979</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,832,366</u></u>

The accompanying notes are an integral part of the financial statements.

**CHATFIELD SCHOOL
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006**

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		CHARGES FOR SERVICES	OPERATING GRANTS	
GOVERNMENTAL ACTIVITIES				
Instruction & Instructional Support	\$ 1,285,039	\$ 24,355	\$ 58,489	\$ (1,202,195)
Support Services	778,856	7,768	134,972	(636,116)
Community Services	126,140	78,141	-	(47,999)
Depreciation (Unallocated)	84,822	-	-	(84,822)
 TOTAL GOVERNMENTAL ACTIVITIES	 <u>\$ 2,274,857</u>	 <u>\$ 110,264</u>	 <u>\$ 193,461</u>	 (1,971,132)
 GENERAL REVENUES				
State of Michigan Aid				
Unrestricted				2,007,844
Investment Revenue				55,419
Miscellaneous				29,549
 TOTAL GENERAL REVENUES				 <u>2,092,812</u>
 CHANGE IN NET ASSETS				 121,680
 NET ASSETS:				
BEGINNING OF YEAR				<u>4,597,299</u>
 END OF YEAR				 <u>\$ 4,718,979</u>

The accompanying notes are an integral part of the financial statements.

**CHATFIELD SCHOOL
COMBINED BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2006**

	GOVERNMENTAL FUND TYPES		TOTAL GOVERNMENTAL FUNDS
	GENERAL	CAPITAL PROJECTS	
ASSETS			
Cash and Cash Equivalents	\$ 417,424	\$ 1,266,609	\$ 1,684,033
Accounts Receivable	386,033	-	386,033
Prepaid Expenses	200	-	200
Due from Other Funds	-	-	-
TOTAL ASSETS	<u>\$ 803,657</u>	<u>\$ 1,266,609</u>	<u>\$ 2,070,266</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
LIABILITIES			
Accounts Payable	\$ 94,992	\$ -	\$ 94,992
Deferred Revenue	18,395	-	18,395
TOTAL LIABILITIES	<u>113,387</u>	<u>-</u>	<u>113,387</u>
FUND EQUITY AND OTHER CREDITS			
Unreserved			
Designated	20,156	1,266,609	1,286,765
Undesignated	670,114	-	670,114
TOTAL FUND EQUITY AND OTHER CREDITS	<u>690,270</u>	<u>1,266,609</u>	<u>1,956,879</u>
TOTAL LIABILITIES, FUND EQUITY, AND OTHER CREDITS	<u>\$ 803,657</u>	<u>\$ 1,266,609</u>	<u>\$ 2,070,266</u>

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Assets

TOTAL GOVERNMENTAL FUND BALANCES \$ 1,956,879

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Capital assets used in Governmental Activities are not financial resources and are not reported in the funds.

The Cost of the Capital Assets is	3,434,112
Accumulated Depreciation is	<u>672,012</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 4,718,979

The accompanying notes are an integral part of the financial statements.

CHATFIELD SCHOOL
COMBINED STATEMENT OF REVENUE, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	GOVERNMENTAL FUND TYPES		TOTAL GOVERNMENTAL FUNDS
	GENERAL	CAPITAL PROJECTS	
REVENUE			
Local Sources	\$ 152,191	\$ 46,540	\$ 198,731
State Sources	2,029,160	-	2,029,160
Federal Sources	168,646	-	168,646
Other Transactions	-	-	-
OTHER FINANCING SOURCES			
Operating Transfers	-	-	-
TOTAL REVENUE AND OTHER SOURCES	2,349,997	46,540	2,396,537
EXPENDITURES			
Instruction	1,304,078	-	1,304,078
Supporting Services	820,257	76	820,333
Community Services	126,140	-	126,140
OTHER FINANCING USES			
Operating Transfers	-	-	-
TOTAL EXPENDITURES AND OTHER USES	2,250,475	76	2,250,551
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	99,522	46,464	145,986
FUND BALANCE – JULY 1, 2005	590,748	1,220,145	1,810,893
FUND BALANCE – JUNE 30, 2006	<u>\$ 690,270</u>	<u>\$ 1,266,609</u>	<u>\$ 1,956,879</u>

The accompanying notes are an integral part of the financial statements.

CHATFIELD SCHOOL
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Net Change in Fund Balance – Total Governmental Funds	\$ 145,986
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Amounts reported for Governmental Activities in the Statement of
Activities are different because:

Governmental Funds report capital outlays as expenditures. In the
Statement of Activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense.

Depreciation Expense	\$ (84,822)	
Capital Outlay	<u>60,516</u>	<u>(24,306)</u>
Change in Net Assets of Governmental Activities		<u>\$ 121,680</u>

The accompanying notes are an integral part of the financial statements.

**CHATFIELD SCHOOL
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2006**

	<u>TRUST & AGENCY FUND</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 13,216</u>
TOTAL ASSETS	<u><u>\$ 13,216</u></u>
LIABILITIES	
Due to Student Groups	<u>\$ 13,216</u>
	<u><u>\$ 13,216</u></u>

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Chatfield School conform to accounting principles generally accepted in the United States of America, as applicable to schools. The following is a summary of the significant accounting policies:

A. REPORTING ENTITY

The School is governed by a five-member Board of Education. The School is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the School. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the School's reporting entity, and which organizations are legally separate, component units of the School. Based on the application of the criteria, the School does not contain component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the School. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include; (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given program; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments that are restricted to meeting the operational or capital requirements of a particular program. State foundation aid and other unrestricted items are not included among program revenues but are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues soon as all eligibility requirements imposed by the provider have been met.

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The School reports the following major governmental fund:

The *General Fund* is the School's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the School reports the following fund types:

The *Capital Project Fund* accounts for the financial resources used for the acquisition or construction of major capital facilities.

The *Agency Fund* accounts for assets held for other groups and organizations and is custodial in nature.

The School first utilizes restricted resources to finance qualifying activities.

D. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of 90 days or less from the date of purchase.

E. CAPITAL ASSETS

Capital assets include land, building and improvements, and furniture and equipment. Assets are capitalized if the initial cost exceeds \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Repairs and maintenance that do not add to the value or extend the lives of the asset are not capitalized. Construction work in process is not depreciated until placed in service. Depreciation is not computed on land. Depreciation is computed using the straight-line method and the estimated useful lives are as follows:

Building and Improvements	25 – 50 years
Furniture and Equipment	5 – 20 years

F. FUND EQUITY

Reserved fund balances represent those portions of fund equity not available for expenditure or are legally segregated for a specific future use.

Designated fund balances are used to identify tentative plans for or restrictions on the future use of financial resources.

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. REVENUE

State Foundation Revenue – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from State sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the pupil membership counts taken in February and September of 2005.

The State revenue is recognized during the foundation period and is funded through payments from October 2005 to August 2006. Thus, the unpaid portion at June 30 is reported as accounts receivable.

State Categorical Revenue – The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.

Federal Revenue – Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

H. USE OF ESTIMATES

The process of preparing basic financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

I. COMPARATIVE DATA/RECLASSIFICATIONS—Comparative data is not included in the School's financial statements.

NOTE 2 – BUDGETS

The official budgets were formally adopted by the School Board, prior to the expenditure of funds for the General Fund, using the modified accrual basis of accounting consistent with generally accepted accounting principles. The budgets were adopted at the functional level and control was exercised at that level. Expenditures in excess of the amounts budgeted at the level of the adopted budget are a violation of the Budgeting Act. Unexpended appropriations lapse at year-end and encumbrances are not included as expenditures. The budget was properly amended by the School Board throughout the year, as needed.

The budget statement (Budgetary Comparison Schedule) is presented on the same basis of accounting used in preparing the adopted budget. The budget information is a summary of the actual budget adopted.

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 3 – DEPOSITS AND INVESTMENTS

The School's cash and cash equivalents and investments at June 30, 2006, are composed of the following:

	<u>TOTAL CASH AND CASH EQUIVALENTS</u>	<u>INVESTMENTS</u>
Deposits	\$ 92,043	\$ -
Investments:		-
Bank Cash Management Funds	1,605,134	-
Petty Cash and Cash on Hand	<u>72</u>	<u>-</u>
 TOTAL	 <u><u>\$ 1,697,249</u></u>	 <u><u>\$ -</u></u>

DEPOSITS

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$118,625, of that amount \$100,000 was covered by federal depository insurance and \$18,625 was uninsured and uncollateralized.

State law prohibits the collateralization of bank deposits.

INVESTMENTS

The School is authorized by Michigan Public Act 132 of 1986 to invest surplus monies in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds and investment pools that are composed of authorized investment vehicles. To the extent that cash from various funds has been pooled in an investment-related investment, income is allocated to each fund based on relative participation in the pool.

The School's investments during the year included bank cash management (investment pool) funds that had a carrying amount and market value of \$1,605,134 at June 30, 2006. Investments are normally categorized to give an indication of the level of risk assumed by the School; however, cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

**CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 4 – CAPITAL ASSETS

Capital assets activity of the School's Governmental Activities was as follows:

	Balance July 1, 2005	Additions	Deletions or Adjustments	Balance June 30, 2006
CAPITAL ASSETS				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Building & Improvements	3,150,781	24,950	-	3,175,731
Furniture & Equipment	172,815	35,566	-	208,381
	3,373,596	60,516	-	3,434,112
Accumulated Depreciation				
Building & Improvements	(464,631)	(72,877)	-	(537,508)
Furniture & Equipment	(122,559)	(11,945)	-	(134,504)
	(587,190)	(84,822)	-	(672,012)
NET CAPITAL ASSETS	<u>\$ 2,786,406</u>	<u>\$ (24,306)</u>	<u>\$ -</u>	<u>\$ 2,762,100</u>

Depreciation expense was not charged to activities as the School considers its assets to impact multiple activities and allocation is not practical.

NOTE 5 – RISK MANAGEMENT

The School has exposure to risks of loss due to torts, errors and omissions, and property loss. The School manages these risks by purchasing commercial insurance through the Cincinnati Insurance Company.

NOTE 6 – EXPENDITURES AND APPROPRIATIONS

No funds incurred expenditures in excess of appropriations (at budgetary levels).

NOTE 7 – LEASED EMPLOYEES

On July 17, 1997, Chatfield School signed an agreement with Chatfield Management Corporation to lease all workers. Chatfield Management Corporation will be responsible for all wages, payroll taxes, and employee benefits, including health insurance and 401(k) contributions. This agreement is effective from July 17, 1997 to June 30, 2007.

NOTE 8 – COST SHARING AGREEMENT

Lapeer County Intermediate School District will act as a service bureau for the constituent districts for maintenance and support of their financial software.

CHATFIELD SCHOOL
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 9 – DESIGNATED FUND BALANCE

In June 2000, a private donation was received in the amount of \$83,000. The remaining donation was designated to be spent as follows:

<u>AMOUNT</u>	<u>PROJECT</u>
\$ 20,156	Maintaining and Upgrading Community Gardens

Any interest earned or unexpended funds are to go to maintaining and upgrading the community garden.

NOTE 10 – LEASE AGREEMENT

The School leases space from Charles Stewart Mott Community College for facilities at the Oakdale Center on Lake Drive for a child care program from July 1, 2005 to June 30, 2006 for \$797 per month. The renewed lease for 2006-2007 was signed in May 2006 for \$824 per month.

In May 2006, the School entered into an agreement to lease a vehicle for 24 months for \$288 per month.

NOTE 11 – RELATED PARTY TRANSACTIONS

Michael Blazo is a board member and owner of Kirk Construction, Inc. Building repairs were done by Kirk Construction with payments totaling \$3,159.

Ralph McCreedy is a board member and co-owner of McCreedy Farms Landscaping & Lawncare, LLC. Landscaping was done by McCreedy Farms with payments totaling \$16,870.

NOTE 12 – CAPITAL PROJECT

In November 2003, the board approved transferring previously designated and restricted money of \$603,209 to a capital projects fund. They added \$300,000 of previously undesignated funds to the capital projects fund and designated it to the Willows Earth Education Center with interest compounded monthly.

In November 2003, the board approved transferring \$300,000 of previously undesignated funds to the capital projects fund and designated it for technology, furnishings, and equipment upgrades.

A summary of the capital projects designated fund balance is:

Willows Earth Education Center	\$ 966,609
Technology, Furnishings, & Upgrades	<u>300,000</u>
	<u>\$ 1,266,609</u>

REQUIRED SUPPLEMENTAL INFORMATION

**CHATFIELD SCHOOL
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED JUNE 30, 2006**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUE				
Local Sources	\$ 81,000	\$ 157,500	\$ 152,191	\$ (5,309)
State Sources	2,061,600	2,033,580	2,029,160	(4,420)
Federal Sources	35,250	185,817	168,646	(17,171)
Other Transactions	6,500	-	-	-
OTHER FINANCING SOURCES				
Operating Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER SOURCES	2,184,350	2,376,897	2,349,997	(26,900)
EXPENDITURES				
Instruction	1,258,985	1,310,000	1,304,078	5,922
Supporting Services	674,335	867,142	820,257	46,885
Community Services	127,985	138,285	126,140	12,145
OTHER FINANCING USES				
Operating Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES AND OTHER USES	<u>2,061,305</u>	<u>2,315,427</u>	<u>2,250,475</u>	<u>64,952</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ 123,045</u>	<u>\$ 61,470</u>	99,522	<u>\$ 38,052</u>
FUND BALANCE – JULY 1, 2005			<u>590,748</u>	
FUND BALANCE – JUNE 30, 2006			<u>\$ 690,270</u>	

The accompanying notes are an integral part of the financial statements.

CHATFIELD SCHOOL
BUDGETARY COMPARISON SCHEDULE – CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2006

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
REVENUE				
Local Sources	\$ 10,000	\$ 10,000	\$ 46,540	\$ 36,540
State Sources	-	-	-	-
Federal Sources	-	-	-	-
Other Transactions	-	-	-	-
OTHER FINANCING SOURCES				
Operating Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER SOURCES	10,000	10,000	46,540	36,540
EXPENDITURES				
Instruction	-	-	-	-
Supporting Services	1,220,319	1,220,319	76	(1,220,243)
Community Services	-	-	-	-
OTHER FINANCING USES				
Operating Transfers	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES AND OTHER USES	1,220,319	1,220,319	76	(1,220,243)
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>\$ (1,210,319)</u>	<u>\$ (1,210,319)</u>	46,464	<u>\$ 1,256,783</u>
FUND BALANCE – JULY 1, 2005			<u>1,220,145</u>	
FUND BALANCE – JUNE 30, 2006			<u>\$1,266,609</u>	

The accompanying notes are an integral part of the financial statements.

OTHER SUPPLEMENTAL INFORMATION

**CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF REVENUE – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006**

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
LOCAL SOURCES				
Interest from Investments	\$ 6,000	\$ 10,000	\$ 8,879	\$ (1,121)
Donations	-	24,000	23,508	(492)
Custody & Care of Children	60,000	79,000	78,141	(859)
Other Local Sources	8,500	36,500	33,895	(2,605)
Cafeteria	6,500	8,000	7,768	(232)
TOTAL LOCAL SOURCES	81,000	157,500	152,191	(5,309)
STATE SOURCES	2,061,600	2,033,580	2,029,160	(4,420)
FEDERAL SOURCES	35,250	185,817	168,646	(17,171)
OTHER FINANCING SOURCES				
Operating Transfers	6,500	-	-	-
TOTAL REVENUE	<u>\$ 2,184,350</u>	<u>\$ 2,376,897</u>	<u>\$ 2,349,997</u>	<u>\$ (26,900)</u>

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS		ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL		
INSTRUCTION				
BASIC PROGRAMS				
Elementary				
Purchased Services	\$ 1,105,385	\$ 1,124,810	\$ 1,123,776	\$ 1,034
Supplies & Materials	56,000	59,800	56,096	3,704
Capital Outlay	28,600	28,600	22,064	6,536
Other Expenses	14,000	14,000	10,630	3,370
Total Elementary	<u>1,203,985</u>	<u>1,227,210</u>	<u>1,212,566</u>	<u>14,644</u>
TOTAL BASIC PROGRAMS	1,203,985	1,227,210	1,212,566	14,644
ADDED NEEDS				
Special Education				
Purchased Services	24,500	32,315	31,701	614
Supplies & Materials	<u>1,000</u>	<u>1,500</u>	<u>1,392</u>	<u>108</u>
Total Special Education	25,500	33,815	33,093	722
Enrichment Services				
Purchased Services	29,000	48,475	58,241	(9,766)
Supplies & Materials	<u>500</u>	<u>500</u>	<u>178</u>	<u>322</u>
Total Enrichment Services	<u>29,500</u>	<u>48,975</u>	<u>58,419</u>	<u>(9,444)</u>
TOTAL ADDED NEEDS	<u>55,000</u>	<u>82,790</u>	<u>91,512</u>	<u>(8,722)</u>
TOTAL INSTRUCTION	<u>1,258,985</u>	<u>1,310,000</u>	<u>1,304,078</u>	<u>5,922</u>
SUPPORT SERVICES				
PUPIL				
Purchased Services	65,010	74,010	70,339	3,671
Supplies & Materials	<u>-</u>	<u>-</u>	<u>108</u>	<u>(108)</u>
TOTAL PUPIL	65,010	74,010	70,447	3,563
INSTRUCTIONAL				
Purchased Services	19,000	76,655	63,170	13,485
Supplies & Materials	3,000	44,818	41,683	3,135
Other Expenses	<u>-</u>	<u>630</u>	<u>540</u>	<u>90</u>
TOTAL INSTRUCTIONAL	<u>22,000</u>	<u>122,103</u>	<u>105,393</u>	<u>16,710</u>
BOARD OF EDUCATION				
Purchased Services	12,800	15,500	13,529	1,971
Other Expenses	<u>60,000</u>	<u>60,000</u>	<u>60,222</u>	<u>(222)</u>
TOTAL BOARD OF EDUCATION	<u>72,800</u>	<u>75,500</u>	<u>73,751</u>	<u>1,749</u>
EXECUTIVE ADMINISTRATION				
Purchased Services	<u>44,855</u>	<u>46,855</u>	<u>41,813</u>	<u>5,042</u>
TOTAL EXECUTIVE ADMINISTRATION	44,855	46,855	41,813	5,042

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

CHATFIELD SCHOOL
GENERAL FUND SCHEDULE OF EXPENDITURES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2006

	BUDGETED AMOUNTS			VARIANCE FAVORABLE (UNFAVORABLE)
	ORIGINAL	FINAL	ACTUAL	
SUPPORT SERVICES (Continued)				
SCHOOL ADMINISTRATION				
Purchased Services	\$ 126,520	\$ 131,520	\$ 133,904	\$ (2,384)
Supplies & Materials	24,000	26,000	23,381	2,619
Capital Outlay	2,000	2,000	1,399	601
Other Expenses	7,000	7,000	11,294	(4,294)
TOTAL SCHOOL ADMINISTRATION	159,520	166,520	169,978	(3,458)
FISCAL SERVICES				
Purchased Services	18,800	29,085	27,228	1,857
Supplies & Materials	1,500	1,500	685	815
Capital Outlay	500	500	-	500
Other Expenses	1,000	1,000	613	387
TOTAL FISCAL SERVICES	21,800	32,085	28,526	3,559
OPERATION & MAINTENANCE				
Purchased Services	166,775	169,275	154,156	15,119
Supplies & Materials	66,575	68,500	70,915	(2,415)
Capital Outlay	41,000	44,000	42,436	1,564
TOTAL OPERATION & MAINTENANCE	274,350	281,775	267,507	14,268
CENTRAL SUPPORT SERVICES				
Purchased Services	14,000	68,294	62,842	5,452
TOTAL CENTRAL SUPPORT SERVICES	14,000	68,294	62,842	5,452
TOTAL SUPPORT SERVICES	674,335	867,142	820,257	46,885
COMMUNITY SERVICES				
Purchased Services	103,000	109,500	106,583	2,917
Supplies & Materials	21,000	24,800	19,382	5,418
Capital Outlay	3,500	3,500	-	3,500
Other Expenses	485	485	175	310
TOTAL COMMUNITY SERVICES	127,985	138,285	126,140	12,145
TOTAL EXPENDITURES AND OTHER USES	<u>\$ 2,061,305</u>	<u>\$ 2,315,427</u>	<u>\$ 2,250,475</u>	<u>\$ 64,952</u>

NOTE: The budget information presented above reflects greater detail than the amended budget adopted.

**CHATFIELD SCHOOL
TRUST AND AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2006**

	<u>BALANCE JULY 1, 2005</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE JUNE 30, 2006</u>
<u>ASSETS</u>				
CASH	<u>\$ 13,218</u>	<u>\$ 90,977</u>	<u>\$ 90,979</u>	<u>\$ 13,216</u>
 <u>LIABILITIES</u>				
DUE TO STUDENT/ OTHER GROUPS	<u>\$ 13,218</u>	<u>\$ 90,977</u>	<u>\$ 90,979</u>	<u>\$ 13,216</u>

BROWN & KENT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

951 S. MAIN STREET, SUITE #3
LAPEER, MICHIGAN 48446
(810) 664-4470 FAX (810) 664-3601

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS,
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Chatfield School
Lapeer, Michigan 48446

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chatfield School, as of and for the year ended June 30, 2006, which collectively comprise Chatfield School's basic financial statements, and have issued our report thereon dated September 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Chatfield School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chatfield School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee and management and is not intended to be and should not be used by anyone other than these specified parties.

Brown & Kent, P.C.

Certified Public Accountants

September 5, 2006

BROWN & KENT, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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(810) 664-4470

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To the Board of Education
Chatfield School
231 Lake Drive
Lapeer, Michigan 48446

Dear Board Members:

We have completed our audit of the financial statements for Chatfield School for the year ended June 30, 2006. Professional standards require that we provide you with the following information related to our audit. In planning and performing our audit, we considered the Chatfield School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As a result of our audit, and in addition to our financial report, we offer the following comments and recommendations for your review and consideration. These items have been discussed with your administration. This letter does not affect our report dated September 15, 2006, on the financial statements of Chatfield School.

BANK RECONCILIATIONS – Due to the size of office staff, there is a lack of segregation of duties regarding the bank reconciliation. The person responsible for preparing the checks also prepares the bank reconciliation. It is recommended that someone independent of bank reconciliation should open the bank statement to review cancelled checks, review the bank reconciliation after completion, and initial and date the report.

BANK RECONCILIATION ENDING DATE – When preparing bank reconciliations, we noted that the reports were printed out as of the date they were prepared. The bank closes its statements at the end of the month. It is recommended that the reconciliations use the cutoff date of the bank statement and subsequent checks be listed separately.

FEDERAL GRANTS 30-DAY CASH ADVANCES – In requesting grant revenue, you can request up to a 30-day cash need. We noted an instance which money was requested in excess of the 30-day cash need. It is recommended to closely monitor federal expenditure timing requests (see next point).

CASH MANAGEMENT – FEDERAL AWARDS – The Michigan Department of Education has been notified that they, along with all other states, have misinterpreted the advance provisions of the Cash Management Improvement Act (CMIA). The United States Department of Education has started monitoring and auditing CMIA compliance and is notifying subrecipients that advances are limited to three days cash needs. Because of this new awareness, the department will no longer allow 30-day cash advances for ongoing programs. We recommend the school request funds on a reimbursement basis in order to ensure compliance with the revised cash management interpretation.

GRANT PERIOD – Grants are awarded with specific beginning and ending dates. It is the School's responsibility to ensure that all expenditures for grants are incurred during these periods.

We would like to thank John McCauley and the office staff for the courtesy and assistance extended to us during our audit. We would be happy to answer any questions you have regarding the annual financial report, and would be pleased to discuss the above comments and recommendations at your convenience.

This report is intended for the information of Chatfield School and management and should not be used for any other purpose.

Brown & Kent, P. C.

Certified Public Accountants

September 15, 2006